

# Discussion of “ Broadening narrow money: monetary policy with a central bank digital currency ”

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# This paper: CBDC as a monetary policy instrument

## ➤ Monetary policy transmission:

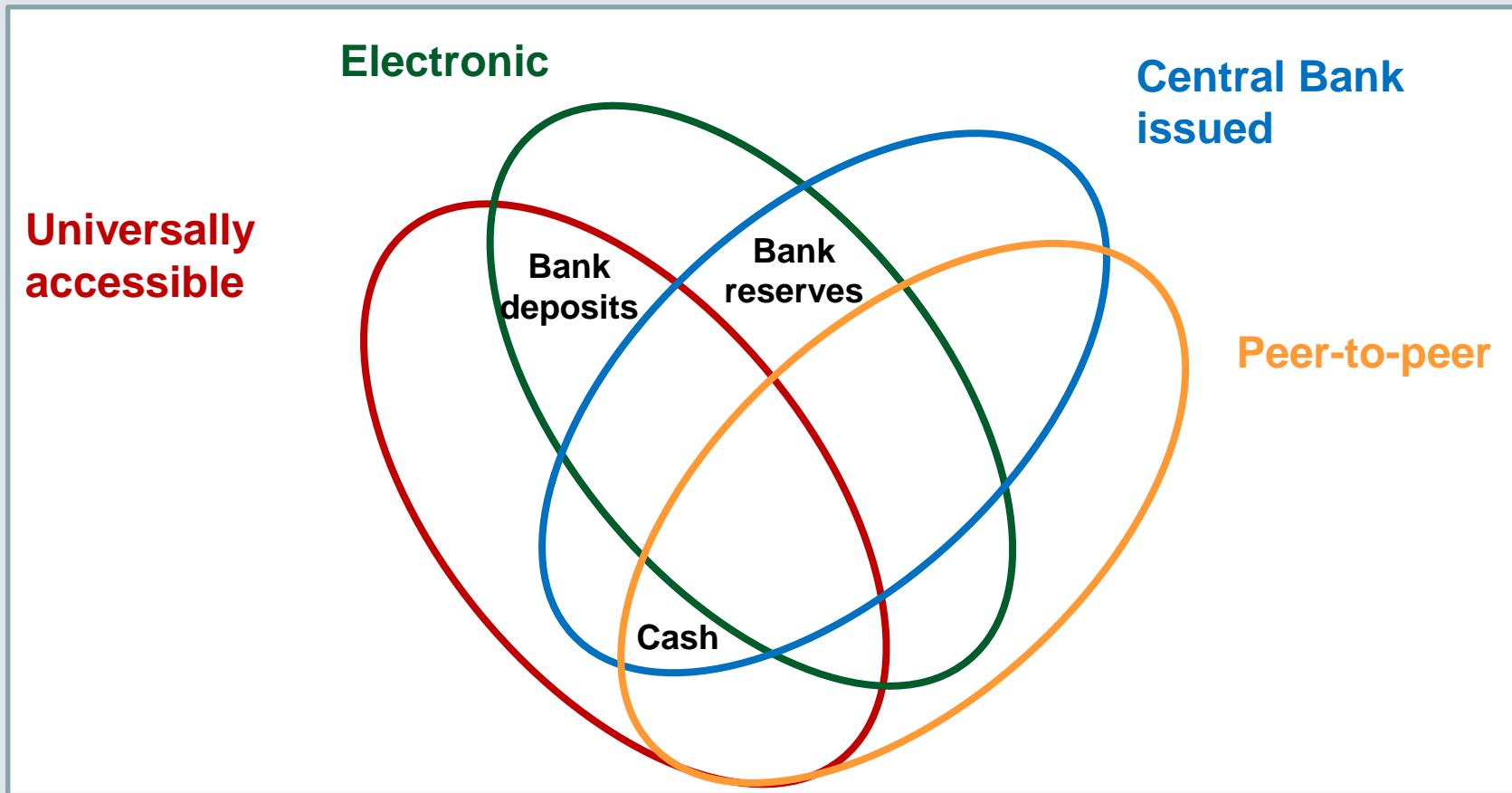


## ➤ Likely impact of CBDC on '➡' ?



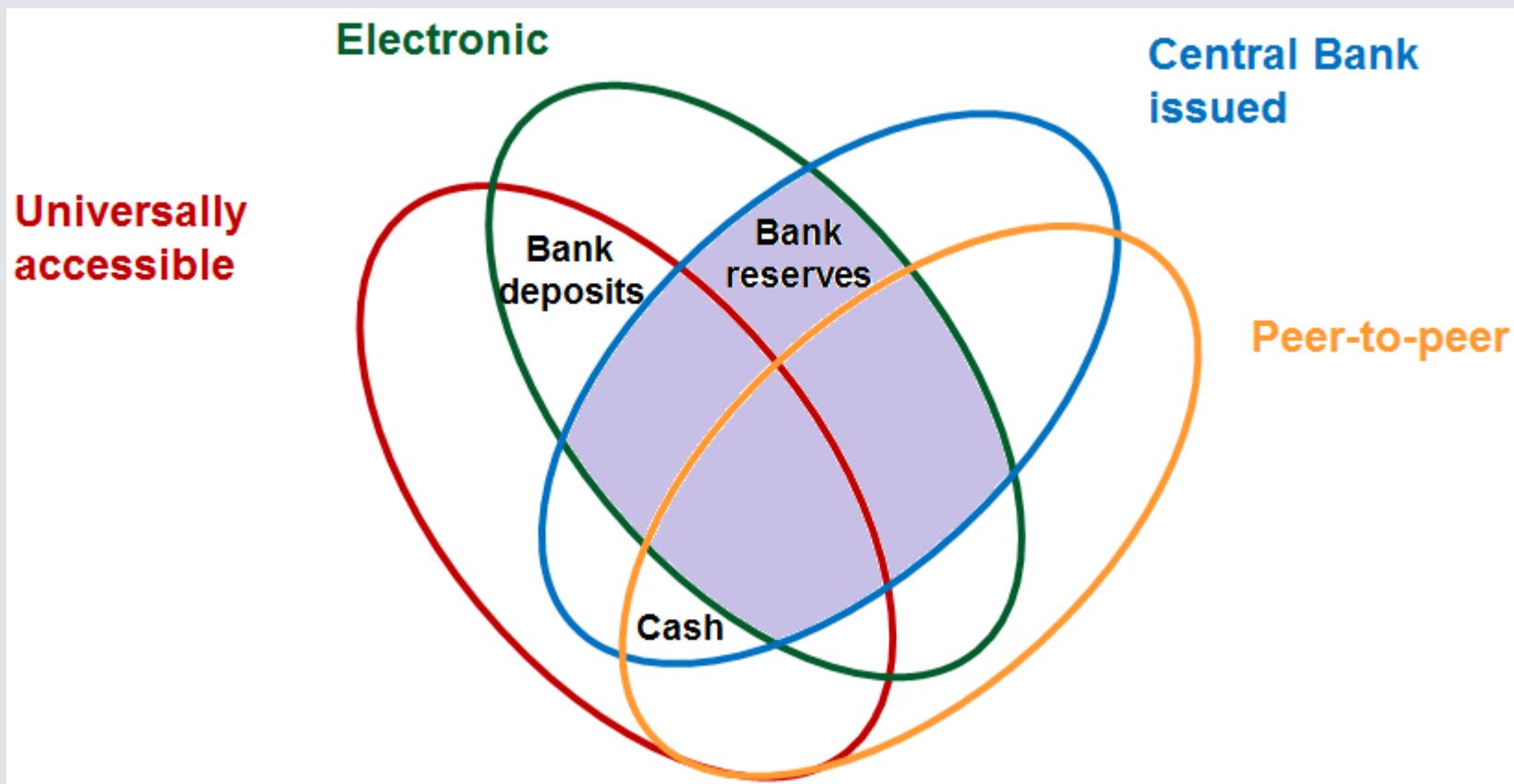
# 1) CBDC: what are we talking about?

- A new taxonomy of money (Bech and Garratt, BIS, 2017):



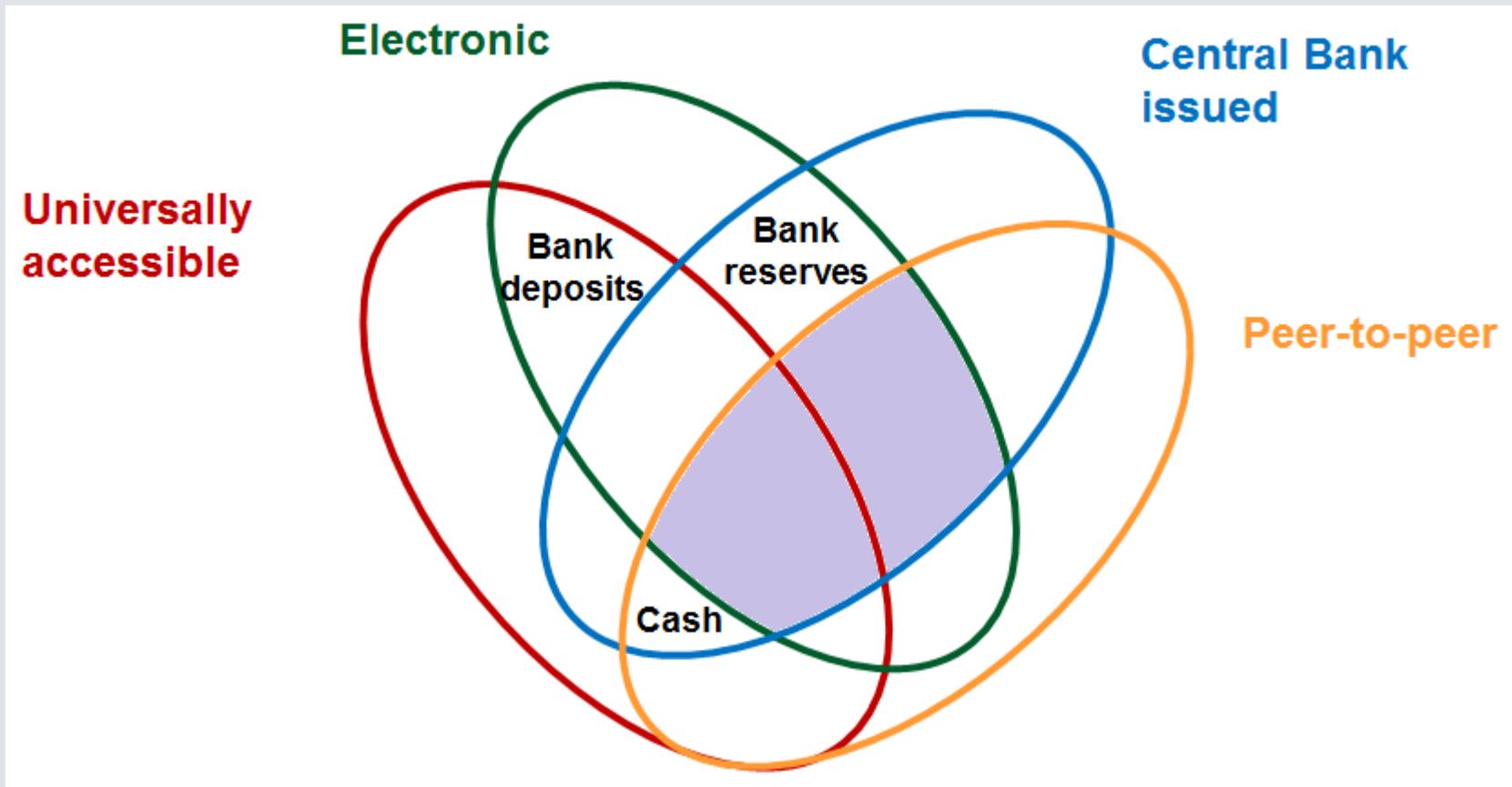
# 1) CBDC: what are we talking about?

➤ CBDC? ➔ **This paper**



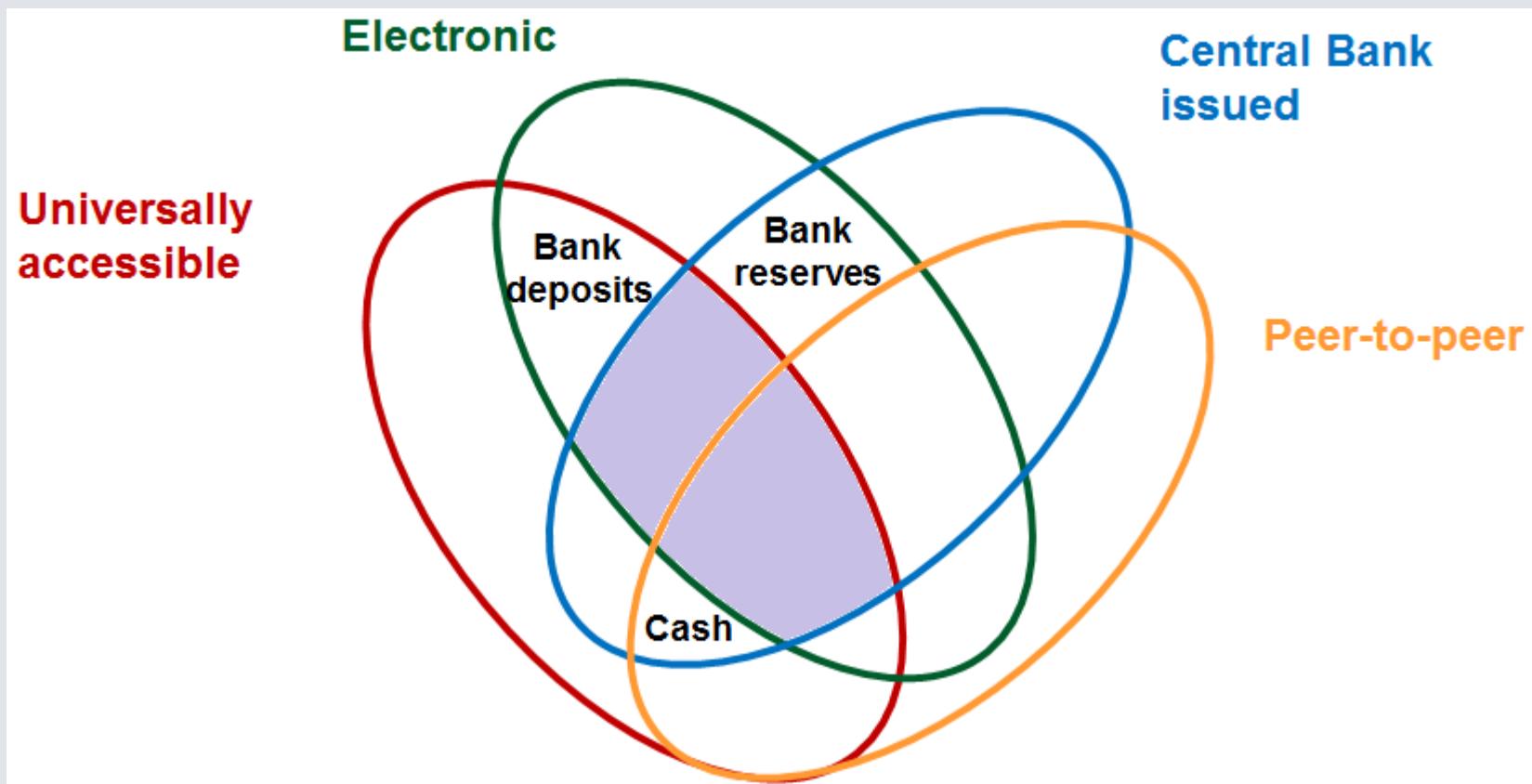
# 1) CBDC: what are we talking about?

➤ CBDC? ➔ Bech and Garratt



# 1) CBDC: what are we talking about?

➤ CBDC? ➔ This discussion

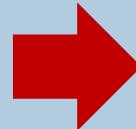


➤ Broaden access beyond CB's monetary counterparties to also include non-monetary counterparties and /or households and firms



## 2) Impact CBDC on

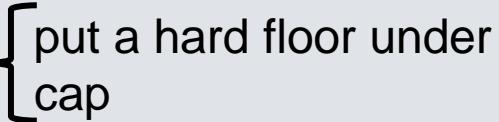
Policy  
Rates



Money  
Market Rates

### ➤ This paper:

Access to CB balance sheet would widen

⇒ This would  put a hard floor under money market rates  
cap

### ➤ Issues for discussion:

#### 1. How wide is a wide?

- Only broader access to the CB's liability side (deposit facilities) ...

 **floor**

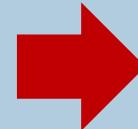
- ...or also to the CB's asset side (lending facilities) ?

 **ceiling ?**



## 2) Impact CBDC on

Policy  
Rates



Money  
Market Rates

### ➤ Issues for discussion (contd.):

2. **Ceteris paribus, CBDC inflows drain bank reserves**  
→ impact on interbank rates ?



**Corridor system (reserve scarcity):**

Drains need to be compensated



How? (Stevens, 2017)

1. CB involvement: stepping up its open market operations  
→ outright purchases or credit facilities
2. Com Banks: attracting additional/alternative private funding
3. Com Banks: deleverage



Each having uncertain effects on fin stability and MPT



## 2) Impact CBDC on

Policy  
Rates



Money  
Market Rates

### ➤ Issues for discussion (contd.):

2. **Ceteris paribus, CBDC inflows drain bank reserves**  
→ impact on interbank rates ?



#### **Floor system (excess reserves):**

Drains only need to be compensated if reserves would become scarce



Unrealistic?

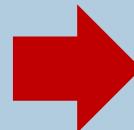
CBDC might facilitate digital bank runs  
(e.g., *Broadbent, 2016; and Dommerholt and Van Tilburg, 2016*)

- ⇒ Imposing a threat to financial stability
- ⇒ Hampering monetary policy transmission
- ⇒ CB might be forced to resort more often to liquidity-injecting OMO's



## 2) Impact CBDC on

Policy  
Rates



Money  
Market Rates

### ➤ Issues for discussion (contd.):

3. **Broadened access to central bank liabilities may entail benefits for financial stability which, in turn, might support MPT.**  
*(Stein, 2012; Greenwood et al, 2016 and Dyson and Hodgson, 2016)*

CBDC acts as a perfectly liquid and credit-risk free asset facilitating final settlement.

- Granting non-bank financial institutions access to CBDC provides additional elasticity (i.e., liquidity) to the financial sector as a whole.  
⇒ Minsky's survival constraint becomes less binding.
- Granting wholesale investors access to CBDC reduces the attractiveness of competing (but more expensive) short-term wholesale funding sources.  
⇒ Limits associated roll-over risks.



### 3) Impact CBDC on



#### ➤ This paper:

With the outside option a CBDC would provide, banks would have less scope to remunerate retail deposits below the policy rate and to delay their response to interest rate decisions.

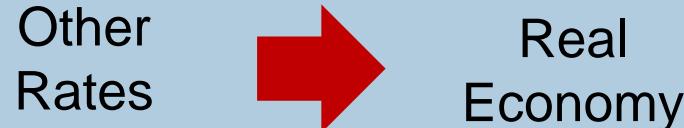
#### ➤ Issues for discussion:

1. **A CBDC could help to alleviate the ELB on nominal interest rates.**  
(e.g., *Goodfriend, 2016; Dyson and Hodgson, 2016; and Bordo and Levin, 2017*)

- ⇒ Providing competition for cash creates the conditions to consider phasing out the largest banknote denominations.
- ⇒ Would increase the average carry cost of holding cash and, thereby, enlarge the scope for negative rates (*Rogoff, 2016*).



## 4) Impact CBDC on



### ➤ This paper:

Increased sensitivity of both funding costs and lending rates to changes in policy rates could strengthen the '*bank lending channel*'.

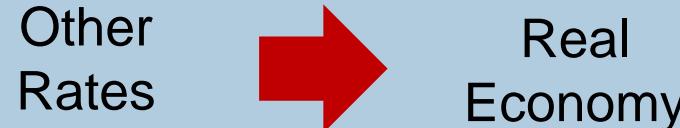
### ➤ Issues for discussion:

**1. If a CBDC were to relax the ELB, it could act to strengthen the '*expectations/signaling*' channel.**

- Alleviating the ELB could help to anchor inflation expectations, as it increases trust in CB's ability to maintain price stability.
- Reducing the need to resort to QE-measures enhances the transparency of the CB's tools and operations (*Bordo and Levin, 2017*).



## 4) Impact CBDC on



### ➤ Issues for discussion (contd.):

#### 2. Alleged pitfalls ?:

- Claim:
  - { shifting lending to CBDC lending rather than lending by issuing deposits could disrupt the bank lending channel,  
as
  - { the former only shifts purchasing power, whereas the latter creates new purchasing power.



Is this 'necessarily' true? What if:

- a) CBDC is supplied perfectly elastically on demand, and
- b) any drain on bank reserves is perfectly compensated for?

What is more relevant?:

- a) Creating new purchasing power, or
- b) activating purchasing power?



# Conclusions

- Interesting paper on an interesting topic
- Offers a nice framework for thinking about the potential monetary policy implications of a CBDC
- That ‘thinking’ offers a good starting point on which advancing insight in the subject can be built.
- Today’s discussion might contribute to this.

